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moffat communications limited annual report 1975

highlights

	1975	1974	% Increase
Revenue	$14,962,542	$12,827,450	16.6
Net income	$ 1,875,000	$ 1,560,000	20.2
Net income per share	$ 1.25	$ 1.04	20.2
Cash Flow *	$ 3,275,200	$ 3,166,591	3.4
Cash flow per share	$ 2.18	$ 2.11	3.3
Income taxes	$ 2,033,129	$ 1,576,632	29.0
Shareholders' equity	$ 8,127,942	$ 6,518,694	24.7
Dividends paid (Note 4)	$ 265,752	$ 240,000	10.7
Number of employees	320	312	2.6
Salaries, wages and benefits	$ 5,193,937	$ 4,258,667	22.0
Videon:			
Number of subscribers	85,064	68,503	24.2
Number of homes passed by cable	129,840	121,239	7.1
Number of homes in licensed area	132,531	124,330	6.6

* Cash flow — Net income, depreciation and amortization, and deferred income taxes less excess of net income of affiliates over dividends received.

directors

Gary T. Brazzell
F. Newton Hughes
J. Blair MacAulay
Donald J. McDonald
J. Ronald Mitchell
Randall L. Moffat
Donna M. Pryor
James M. Pryor
Bennet R. Wong, M.D.

officers

THE COMPANY

Randall L. Moffat
Chairman of the Board
J. Ronald Mitchell
President
Gary T. Brazzell
Secretary
William A. Davis
Vice-President - Finance and Treasurer

Alden E. Diehl,
Vice-President and General Manager,
CKY Radio Division, Winnipeg.
Donald M. E. Hamilton,
Vice-President and General Manager,
CKLG Division, Vancouver.
Thomas E. McBride,
Vice-President and General Manager,
CKXL and CHFM-FM Division, Calgary
Vernon L. Traill,
Vice-President and General Manager,
CHAB Division, Moose Jaw.

Jack M. Davidson
Vice-President — Corporate Planning
Keith P. James,
Vice-President — Program Development and Research

SUBSIDIARY AND AFFILIATE COMPANIES

J. Sidney Boyling,
Vice-President and General Manager,
Winnipeg Videon Limited, Winnipeg.
Murray M. Forbes,
Vice-President and General Manager,
Radio Station CHED Ltd., Edmonton.
James S. Purvis,
Vice-President and General Manager,
MTV Limited, (CKY-TV) Winnipeg.
Philip W. Reimer,
President,
Media Tours Limited, Winnipeg

bank

Canadian Imperial Bank of Commerce

transfer agent

Canada Permanent Trust Company

auditors

Deloitte, Haskins & Sells, Chartered Accountants.

corporate office

CKY Building, Polo Park, Winnipeg R3G 0L7

operating divisions of
moffat communications limited

Alden E. Diehl, **CKY-AM/FM** Winnipeg, Vernon L. Traill, **CHAB-AM**, Moose Jaw, Donald M. E. Hamilton, **CKLG-AM/FM**, Vancouver, William A. Davis, J. Sydney Boyling, Winnipeg Videon Limited - CATV (80% owned), James S. Purvis, **CKY-TV** and (50% owned) **CJAY**, Brandon and **CKYD** Dauphin. Seated: Keith P. James, Thomas E. McBride, **CKXL-AM** and **CHFM-FM**, Calgary and M. M. (Jerry) Forbes, **CHED-AM** (45% owned), Edmonton relax during a recent programming and sales meeting held in Vancouver.

OTHER OPERATIONS

MEDIA TOURS LIMITED (63% owned)
MEDIA STUDY TOURS LIMITED (70% owned by Media Tours Limited)
EMM/CEE PRODUCTIONS LTD.
EMM PUBLISHING LTD.
CEE PUBLISHING LTD.
EMCEE SERVICES LTD.
MANIPRO LTD.

report to the shareholders

From both a financial and operational viewpoint your Company enjoyed another record-breaking year. The Consolidated Statement of Income shows that net income for the year ended August 31, 1975 increased to $1,875,000 ($1.25 per share) from $1,560,000 ($1.04 per share), an improvement of 20.2% over net income for 1974.

In view of the general economic conditions that prevailed throughout our fiscal year, we regard as totally satisfactory the improvement of 16.6% in gross revenue from the sale of radio and television advertising and subscribers fees from operation of the CATV systems.

To improve our working capital position in order that we can continue to provide a high quality service, the term bank loan was renegotiated so that the final installment will now become payable in 1985. Some of the additional money borrowed was used to prepay on a discounted basis, certain obligations, most of which would have fallen due in 1977.

Capital expenditures for the year totalled a record of $1,980,000. New AM radio transmitters were purchased for Winnipeg and Moose Jaw. A new FM radio transmitter and antenna attached to the CKY-TV tower enabled CKY-FM, Winnipeg to resume broadcast at its full 360,000 watts ERP. Installation of the new 50,000 watt radio transmitter and associated towers and equipment will be completed at CKLG-AM Vancouver in December 1975. The Canadian Radio-Television Commission (CRTC) has approved our applications to relocate the transmitter site and to increase power for CHFM-FM Calgary to a maximum 100,000 watts ERP and we anticipate that the improved service will be available to listeners by February 1976. The remainder of the cost represents modernization of studio production facilities and expansion of the CATV plant of Winnipeg Videon Limited (Videon) in Winnipeg.

The Company has continued to play an active role in the development of Canadian talent in Western Canada. Our innovative approach to improving the quality of domestic programming continues to receive support and encouragement from the musicians, performers and other members of the professional creative community.

In order that each broadcast licensee can be responsive to the community it is licensed to serve, each operates, within certain defined limits, on an autonomous basis. However, regularly, programming, sales, and engineering management meetings are held in order that information and new ideas can be exchanged.

RADIO

At the September 1975 hearing the CRTC considered as a non-appearing item, the application by Radio Station CHED Ltd., Edmonton to increase its power to 50,000 watts, but has announced no decision.

The CRTC has announced new regulations with respect to FM broadcasting that become operative September 6, 1976. We have filed license renewal applications demonstrating how we propose to implement these new regulations in each of our three FM communities and we have already made most of the requisite programming adjustments to enable us to comply with the new regulations.

While we had a strike at CKLG, Vancouver the employees subsequently applied for and were granted decertification of the union that represented them.

Each of our radio stations directs its programming to a particular segment of the audience living in the licensed area. We believe we provide an innovative, high quality service responsive to the interests of listeners in the community we serve. The number of people listening to our stations has continued to grow as has advertising revenue.

TELEVISION

CKY-TV, as the CTV television network affiliate licensed for Manitoba, provides service to the Winnipeg and through Relay Communications Ltd. (50% owned), the Brandon and Dauphin areas of Manitoba. We anticipate that The Pas, Flin Flon, Snow Lake and Thompson will also be receiving service by the end of May 1976 making the CKY-TV service available to 97% of the population of Manitoba.

We expect that the CRTC will consider in the immediate future our application to increase the power and to change the transmitter site of the rebroadcaster licensed to serve the Interlake region.

A new Canadian television station licensed to serve Winnipeg commenced operations September 1, 1975. KCND, Pembina, North Dakota, a major competitor since CKY-TV began service in 1960, ceased operations on that same date. We believe that competition with the new station is more equitable since the new station must operate under the same Canadian Broadcast Regulations.

Plans for deletion of commercials on the three United States television stations available to CATV subscribers in Winnipeg are proceeding and we anticipate the commercials will be deleted on a random basis by the end of this fiscal year.

Certain United States television stations are threatening to establish electronic "jamming" equipment that will prevent Canadians from receiving the U.S. television programs either directly or through cable systems. The same stations, not licensed to serve Canada, and not paying a programming licensing fee for Canada, are selling some $15 to $20 million in advertising to Canadian sponsors. This sales practice will encounter some difficulty if Parliament passes the proposed legislation to disallow for income tax purposes, advertising expenditures made by Canadian companies on the U.S. broadcasting stations. Random deletion of commercials, which is less disruptive to the cable viewer than the United States technique of deleting programs that are already telecast by the local television stations, will also help to restore the licensing logic of Canadian off-air television stations. Cable systems cannot at this time afford to extend their services to rural areas because the greater choice of viewing results in fewer people watching the Canadian stations. The Canadian stations must charge less for their advertising which serves to reduce the amount that they can spend on the production of Canadian programming and the extension of service to more remote areas of our country. Obviously cable subscribers cannot be allowed to deprive other Canadians of the right of watching television. While "jamming" could be effective we are certain that other arrangements would be made to enable cable viewers to enjoy the choice of programs they desire while, at the same time, not destroying the licensing logic of the Canadian broadcast system.

WINNIPEG VIDEON LIMITED

On September 1, 1975 Videon moved to a new building location which will enable its staff to better handle the requirements of its 89,000 subscriber households. New studio facilities will better enable community groups to produce their access television programming.

The CRTC has announced proposed regulations and has held a public hearing with respect to CATV broadcasting. We anticipate that by the end of 1975 these will be announced as formal regulations.

We are disappointed that the CRTC is suggesting vast amounts be spent on the community channel because in our opinion a portion of the money would better be spent on the development of professional talent and high quality Canadian programs to support the off-air television broadcasting industry. Unless more money is made available to improve the production capability of Canada the off-air broadcasters will continue to be apprehensive of their future role. Videon continues to help finance the production of certain television programs and to operate a successful community access channel.

On October 31, 1975 Videon filed applications with the CRTC to establish CATV systems to serve the Manitoba communities of Selkirk, Portage la Prairie and Brandon, with a potential of 18,000 households. We expect that these applications will be considered at public hearings commencing February 16, 1976.

On behalf of a company to be incorporated, in which the Company would acquire not more than a 50% equity position, an application was submitted to the CRTC on October 31, 1975 to establish CATV systems to serve the Saskatchewan cities of Regina, Moose Jaw, Saskatoon and North Battleford with a potential of 106,000 household subscribers. The remaining 50% shareholder interest will be offered to the general public. These applications will be considered at the February 9, 1976 public hearings.

In all seven applications the intentions and requirements of the CRTC have been met and subscriber fees have been established to allow the cable companies to meet the obligations undertaken in the applications.

Videon applied for and was granted permission to increase its installation charge from $10.00 to $15.00 effective September 1, 1975. This increase was necessary to offset increased costs of installing drops.

GENERAL

Maintaining an equitable and competitive salary schedule while still earning sufficient profit that your Company can continue to finance purchases of new equipment and to repay the existing debt is made more difficult when the CRTC adds to the inflationary problem by issuing licenses to new radio and television stations. These new stations require experienced staff and programs and filling this need tends to increase costs. Your Company proposes to voluntarily comply with the spirit of the anti-inflation program. Increases in profits will be related to the additional capital costs associated with new projects, mainly approved by the CRTC, for the improvement and extension of service as referred to previously. Present information indicates that dividend payments cannot be increased during the 1976 fiscal year.

The outstanding results achieved last year directly reflect the efforts and positive attitude of our employees who continue to grow with the Company.

On behalf of the Board,

J. Ronald Mitchell, President.

November 21, 1975

CKY's LET'S GO series was highly praised at the Children's Broadcast Institute Seminar in Ottawa, and received special commendation from CanPro '75 for "the conceptual development of a unique children's program offering the potential for involving children in the creative process of drama and music improvisation".

One of two Videon-CKY Co-productions in '75 – THE MAGIC TRUMPET – an original children's musical play, was telecast on the CTV Network Saturday, October 18th, 1975.

ARCHIE WOOD AND FRIEND (Uncle Bob) now in their 11th year on CKY-TV.

moffat communications limited

combined five year review

Years Ended August 31

"000" Omitted

	1975	1974	1973	1972	1971
Revenues	$14,962	$12,828	$10,523	$9,365	$8,208
Operating expenses	9,563	8,159	6,929	6,166	5,763
Depreciation and amortization	1,019	901	808	770	736
Interest on long-term debt	529	692	551	419	414
Income taxes	2,033	1,576	1,096	1,001	679
Share of net income of affiliates	214	176	146	115	89
Minority interest in net income of subsidiaries and affiliates	157	116	86	241	132
Net income for the year	1,875	1,560	1,199	883	573
Dividends paid	266	240	180	30	—
Net income per share	$ 1.25	$ 1.04	80.0¢	58.9¢	38.2¢

The Combined Five Year Review includes the accounts of Winnipeg Videon Limited and MTV Limited on the basis that they were partly owned subsidiaries throughout the period, with the interest of the other shareholders in net income treated as minority interest. The Company's equity in MTV Limited was 48.077% to August 31, 1972 and 100% thereafter. With respect to Winnipeg Videon Limited, the Company's equity during the period was 38.75% to December 31, 1970 and 80% thereafter.

moffat communications limited
and Subsidiary Companies

consolidated balance sheet

As At August 31, 1975 (With 1974 Figures For Comparison)

ASSETS	1975	1974
CURRENT ASSETS:		
Cash	$ 988,073	$ 748,314
Accounts receivable	2,115,619	1,659,980
Prepaid expenses	215,823	220,093
Total current assets	3,319,515	2,628,387
INVESTMENTS:		
Affiliated companies - shares (Note 1)	345,268	293,543
- advances	117,882	101,880
Other - at cost (no quoted market value)	229,644	165,770
Total investments	692,794	561,193
PROPERTY, PLANT AND EQUIPMENT - at cost:		
Property, plant and equipment (including land $175,691)	15,547,772	14,189,491
Less accumulated depreciation	7,164,283	6,696,940
Net property, plant and equipment	8,383,489	7,492,551
EXCESS OF COST OF SHARES OVER NET ASSETS OF SUBSIDIARIES AT DATES OF ACQUISITION (Note 1)	5,446,603	5,446,603
TOTAL	$17,842,401	$16,128,734

The accompanying notes are an in

LIABILITIES AND SHAREHOLDERS' EQUITY	1975	1974
CURRENT LIABILITIES:		
Accounts payable and accrued charges	$ 852,248	$ 717,980
Income taxes	877,490	278,647
Current portion of long-term debt	37,000	1,009,100
Unearned income	525,303	318,726
Total current liabilities	2,292,041	2,324,453
LONG-TERM DEBT (Note 2)	5,245,163	5,529,363
DEFERRED INCOME TAXES	1,436,988	1,004,108
MINORITY INTEREST (Note 3)	740,267	752,116
SHAREHOLDERS' EQUITY:		
Capital stock (Note 4)	571,264	571,264
Retained earnings	7,556,678	5,947,430
Total shareholders' equity	8,127,942	6,518,694
TOTAL	$17,842,401	$16,128,734

Approved by the Board:

Mitchell .... Director

Andrew L. Moffat .... Director

l part of the financial statements.

moffat communications limited
and Subsidiary Companies

consolidated statement of income and retained earnings

For The Year Ended August 31, 1975 (With 1974 Figures For Comparison)

	1975	1974
GROSS REVENUE FROM OPERATIONS	$14,962,542	$12,827,450
SHARE OF NET INCOME OF AFFILIATES (Note 1)	213,725	176,434
	15,176,267	13,003,884
EXPENSES:		
Operating expenses	9,563,333	8,159,042
Depreciation and amortization	1,019,045	900,788
Interest on long-term debt	528,558	691,812
Income taxes - current	1,600,249	874,395
- deferred	432,880	702,237
	13,144,065	11,328,274
INCOME BEFORE UNDERNOTED	2,032,202	1,675,610
MINORITY INTEREST IN NET INCOME OF SUBSIDIARIES (Note 1)	157,202	115,610
NET INCOME FOR THE YEAR	1,875,000	1,560,000
RETAINED EARNINGS AT BEGINNING OF THE YEAR	5,947,430	4,627,430
DIVIDENDS (Note 4)	(265,752)	(240,000)
RETAINED EARNINGS AT END OF THE YEAR	$ 7,556,678	$ 5,947,430
NET INCOME PER SHARE	$1.25	$1.04

The accompanying notes are an integral part of the financial statements.

moffat communications limited
and Subsidiary Companies

consolidated statement of changes in financial position

For The Year Ended August 31, 1975 (With 1974 Figures For Comparison)

FUNDS PROVIDED:	1975	1974
Operations	$ 3,180,137	$ 3,103,679
Dividends from affiliated companies . .	162,000	180,000
Interest added to long-term debt	—	140,950
Sale of land and equipment	96,668	42,141
Proceeds from long-term debt	5,000,000	275,261
Total funds provided	8,438,805	3,742,031
FUNDS APPLIED:		
Long-term debt	5,275,205	1,732,743
Payments to minority shareholders . . .	177,659	82,658
Capital expenditures	1,980,648	1,435,054
Advances - affiliated company	16,001	(5,275)
Dividends (including special tax in 1974)	265,752	240,000
Total funds applied	7,715,265	3,485,180
INCREASE IN WORKING CAPITAL DURING THE YEAR	723,540	256,851
WORKING CAPITAL AT BEGINNING OF THE YEAR	303,934	47,083
WORKING CAPITAL AT END OF THE YEAR	$ 1,027,474	$ 303,934

The accompanying notes are an integral part of the financial statements.

moffat communications limited
and Subsidiary Companies

notes to the consolidated financial statements

August 31, 1975

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Consolidation:
The accounts of all subsidiaries are included in the consolidated statements. The subsidiaries are as follows:

Wholly-owned:
EMM/CEE Productions Ltd., EMM Publishing Ltd., CEE Publishing Ltd., Manipro Ltd., Emcee Services Ltd. (formerly MBL Cable Television Ltd.) and MTV Limited.

Partially-owned:
Media Tours Limited (90%) and Winnipeg Videon Limited (80% - 74.5% voting).

Bow Valley Broadcasting Co. Ltd., an inactive wholly-owned subsidiary, surrendered its charter for cancellation during the year.

There has been no amortization of the excess of cost of shares in subsidiaries over their net assets at dates of acquisition.

Investments in shares of affiliated companies Radio Station CHED Ltd. and Sibbald Arms Ltd., both 45% owned, and Relay Communications Ltd., 50% owned, are at cost plus equity share of net income less dividends received.

(b) Depreciation and Amortization:
Plant and equipment costs, less 10% residual value, and all leasehold improvement costs are charged to income over estimated useful lives ranging from four to twenty years.

(c) Income Taxes:
Income taxes are computed on the tax allocation basis. Accordingly, the annual tax provision relates to the accounting income and comprises both taxes currently payable and taxes deferred due to timing differences between accounting and taxable income.

2. LONG-TERM DEBT

Long-term debt, excluding amounts payable to minority shareholders, comprises the following:

	Long-term portion	Current portion
Term bank loan, repayable in annual instalments of $250,000 September 1976 through September 1978, $607,000 September 1979 through 1984 and $608,000 in September 1985	$5,000,000	$ –
7% mortgage, repayable in monthly instalments through November 1981	245,163	37,000
	$5,245,163	$37,000

The term bank loan is secured by debentures of the Company issued under a Deed of Trust and Mortgage dated November 1, 1965. Interest is at prime bank rate plus 1½% for an effective rate of 10½% at August 31, 1975. The Company has undertaken that unless it has the bank's consent it will not dispose of its various investments, not pay dividends in any year in excess of 40% of its consolidated net income for the preceding year and not make capital expenditures in excess of prescribed limits.

3. MINORITY INTEREST

Minority interest in subsidiaries comprises the following:

6¾% notes due May 31, 1977 including accrued interest	$514,558
Share of capital stock and retained earnings	225,709
	$740,267

4. CAPITAL STOCK

Authorized share capital is comprised of 2,500,000 Class A common shares without par value and 2,500,000 Class B common shares without par value. Both classes of shares are inter-convertible at any time and the only difference in rights of holders of Class A and Class B shares is that the former receive ordinary cash dividends and the latter receive cash dividends paid out of tax-paid undistributed surplus in an amount equivalent to 85% of ordinary cash dividends. As at August 31, 1975, 354,314 Class A and 1,145,686 Class B shares were issued and outstanding.

Dividends were paid during the year as follows:

Paid on Class A common shares	$ 71,708
Paid on Class B common shares	194,044
	$265,752

No special 15% tax was payable during the year on the tax-free dividends paid on Class B shares by virtue of the Company electing to pay such dividends out of existing tax-paid undistributed surplus.

As at August 31, 1975, 30,000 unissued Class A common shares have been reserved for allocation to employees under a stock option plan and options had been granted with respect to 25,250 of these shares at a price of $6.97 per share exercisable in the five calendar years 1975 through 1979, to a maximum of 20% of the optioned shares each year plus unexercised options of the previous years. The outstanding options have no material dilutive effect on net income per share.

5. LEASE AGREEMENTS

The total lease rental payments for the year ended August 31, 1975 were $411,000 and based on existing lease committments will approximate $506,000 in the ensuing year and $600,000 in the following four years.

6. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration paid by the Company and its subsidiaries to directors and senior officers (as defined by the British Columbia Companies Act) during the year was $615,405 (1974 - $545,765). This includes remuneration of $149,211 (1974 - $133,504) to employees who are among the five highest paid but are not considered to be part of management of the company.

auditors' report

To The Shareholders of
Moffat Communications Limited:

We have examined the consolidated balance sheet of Moffat Communications Limited and subsidiary companies as at August 31, 1975 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at August 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

As required by the British Columbia Companies Act we also report that, in our opinion, due provision has been made in these consolidated financial statements for minority interests in subsidiaries.

DELOITTE, HASKINS & SELLS

Winnipeg, Canada
October 14, 1975

Chartered Accountants

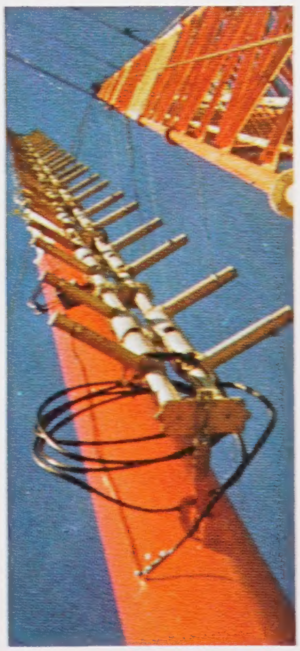
The CANADIAN ALL STAR SONG PARADE (A 60-minute Videon-CKY TV Special) was seen on the CTV Network Tuesday, August 5th, 1975.

Chad, Bob and Janice — THE FLOWERS FAMILY — on the set of one of two TV pilots developed this year at CKY-TV.

The weekly panel game show OPINION POLL is produced by CKY-TV for syndication across Canada.

moffat communications limited

Winnipeg Videon moved to modern new quarters to better serve its cable customers west of the Red River in Winnipeg.



CKY-TV Service started in the Dauphin area, October 1975, from high atop Manitoba's Baldy Mountain.